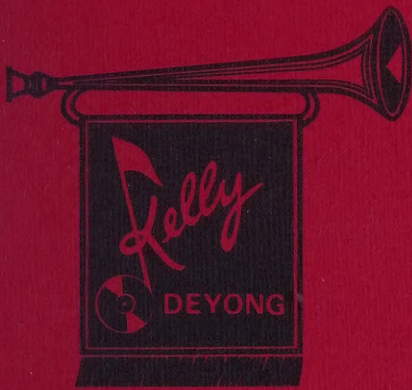


AR27



Corp report

KELLY-DEYONG SOUND CORPORATION LTD.

ANNUAL REPORT 1971

AR27

corp report



We are not presenting a source and application of funds as it would not be meaningful.

General Offices:
2185 W. Broadway, Vanc., B.C.

KELLY-DEYONG SOUND CORPORATION LTD.

Report to the Shareholders

FOR THE SIX MONTHS ENDED
AUGUST 31, 1971

KELLY-DEYONG SOUND CORPORATION LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNINGS

For the Six Months ended August 31, 1971
(with 1970 figures for comparison)

	1971	1970
Sales	\$1,237,752	\$1,467,421
Cost of Sales	865,245	1,086,904
Gross Profit	\$ 372,507	\$ 380,517
Selling general and administrative expenses	512,097	570,502
Operating Income or (Loss)	\$ (139,590)	\$ (189,985)
Extra-ordinary items		
Gain on sale of fixed assets	29,576	—
Earnings (Loss) before Income Taxes	\$ (110,014)	\$ (189,985)
Provision for Income Taxes		(16,400)
Earnings (Loss)	\$ (110,014)	\$ (173,585)

Notes to Consolidated Financial Statements

1. The Statement of Earnings for the six months ended August 31, 1970 and 1971 have not been audited, and, of necessity include certain estimated figures in order to present the results as accurately as possible.

Your directors' examination of month-by-month improvements has given rise to their realistic optimism in spite of mid-year figures which show a total six-month net loss, before taxes, of \$110,014 (including extraordinary profit item of \$29,576) on total period sales of \$1,237,752. A month-by-month report of the company's position shows the following:

	Actual Gross Sales	Indicated Profits or (Losses) From Operations
March	\$ 198,511	\$ (47,951)
April	120,933	(54,550)
Take over by Steintron — May 1/71		
May	183,584	(34,918)
June	197,743	(18,409)
July	252,317	3,805
August	284,664	12,433
	<u>\$1,237,752</u>	<u>\$ (139,590)</u>

Sales Trend in the Period

During the period under review, sales of records, tapes, accessories, audio equipment and other items rose markedly. Store retrenchment led to decreased sales during May and June compared to the two previous months. But, subsequent revitalization of the company's eleven remaining stores pushed July and August sales to new highs.

Continuous intensification of your company's new sales and marketing program is certain. Indications are for still greater increases in sales throughout the remainder of the 1972 fiscal year. However, early year difficulties and their results may fail to be overtaken by later improvements before the periods end.

Projections for the future are for considerable progress.

Cost Improvements

As noted in the 1971 annual report issued by this board shortly after taking office, strong measures were introduced by them to cut operating costs. Generally these steps were successful. However, the search for yet more economies of operation continues.

Stringent enforcement of Kelly-Devyongs' new policies permitted only necessary expenditures. Cost of sales were, therefore, kept well in line with the periods' growing sales volume.

Future Developments

Now your directors are confident that their prompt administrative changes and altering of marketing procedures will produce additional immediate and longer term results of a satisfactory nature.

Plans have been prepared for expansion of the Kelly-Devyong chain of retail stores. These will be undertaken as appropriate opportunities and market conditions warrant.

With effective re-organization accomplished, and operating expenses significantly reduced in relation to sales, your board is confident that Kelly-Devyong will improve its earnings while progressively moving towards its true potential.

It is with great pleasure that I present this mid-year report on behalf of your directors. We are grateful to the many shareholders, employees and others who assisted the company during this transition period.

B.N. Tessler
Managing Director

REPORT TO THE SHAREHOLDERS

for the six months ended August 31, 1971

Operations successfully turned the corner mid-way through the period and Kelly-Devyong Sound Corporation Ltd. began heading towards a profit.

In fact, by the end of the period there was a reversal of the company's previous monthly loss position.

Re-organization and consolidation initiated by your new board of directors brought about performance improvements leading to a late-period profit trend which should continue.

Six Month Totals

While conventional practice calls for a six-month summation of your company's operations, the extraordinary events of the first half of fiscal 1972 require more detailed explanation.

In short, six-month totals for Kelly-Devyong must be viewed in the correct perspective.

The first two months recorded major losses.

Then control of Kelly-Devyong was taken over by Steintron International Electronics Ltd. and an impressive belt tightening and sales development program began.

Immediately upon the installation of this new board the first of May, a complete reviving of the company was initiated. An extensive evaluation of the company's whole operation was launched covering every aspect of the business.

The study completed, your directors created an appropriate program for corporate reconstruction. The first steps were the closing of six unprofitable retail outlets, and the recruitment and appointment of superior-quality management.

June saw a number of the boards' objectives attained and the beginning of real operational improvements.

Reform was well along in July: Kelly-Devyong Sound Corporation Ltd. had, indeed, embarked upon a successful new course. The early introduction of major marketing activities resulted in large increases in monthly sales — despite fewer stores — during a traditionally slow summer season.

Vigorous implementation of your boards' policies by experienced new management backed by an enthusiastic staff helped the company add up a profit in August to mark the beginning of a much-welcomed brand new financial trend.



KELLY-DEYONG SOUND CORPORATION LTD.

2145 WEST BROADWAY
VANCOUVER 9, B.C.
736-6481

KELLY-DEYONG SOUND CORPORATION LTD.

NOTICE OF ANNUAL GENERAL MEETING.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the shareholders of KELLY-DEYONG SOUND CORPORATION LTD. will be held in the Connaught Room of the Hotel Georgia, 801 West Georgia Street, Vancouver, British Columbia on Friday, the 27th day of August, 1971 at 10:00 o'clock in the forenoon (Vancouver time) for the following purposes:

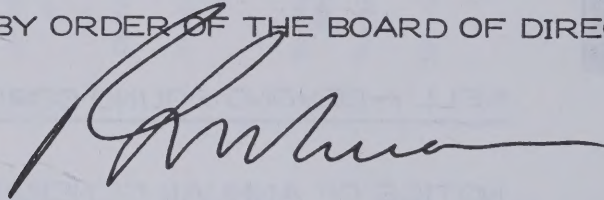
- a) To receive and consider the financial statements of the Company for the fiscal year ended February 28, 1971 and the Auditors' Report thereon;
- b) To appoint auditors for the ensuing year and to authorize the directors to fix the remuneration to be paid to the auditors;
- c) To decrease the number of directors from five to four and to elect directors;
- d) To confer a general authority to the directors (expiring at the next annual general meeting unless then continued by ordinary resolution) to take or acquire by purchase or otherwise and hold shares, stocks or debentures in any other corporation;
- e) To transact such other business as may properly be brought before the meeting.

Shareholders who are unable to attend the meeting in person are requested to date and sign the enclosed form of Proxy and return it to Yorkshire Trust Company, 590 West Pender Street, Vancouver 2, British Columbia.

2.

DATED at Vancouver, British Columbia this 19th day
of August, 1971.

BY ORDER OF THE BOARD OF DIRECTORS

A handwritten signature in dark ink, appearing to read 'R. McQuarrie', written over the printed name below.

ROBT. L. McQUARRIE, C.A.
Secretary.

INFORMATION CIRCULAR.

GENERAL INFORMATION

This Information Circular is furnished in connection with the solicitation of proxies by the management of Kelly-Deyong Sound Corporation Ltd. (the "Company") for use at the Annual General Meeting of the shareholders of the Company to be held on Friday the 27th day of August, 1971 at the time and place for the purposes set forth in the Notice of Meeting.

PERSONS MAKING THE SOLICITATION.

The enclosed Form of Proxy is being solicited on behalf of the Management of the Company and the persons named therein are directors of the Company. A shareholder has the right to appoint a person (who need not be a shareholder) to represent him at the meeting other than those named in the enclosed Form of Proxy. Such right may be exercised by inserting such other person's name in the blank space provided in the Form of Proxy.

Solicitations will be made by mail, and may be supplemented by telephone or other personal contact by the proper officers and employees of the Company without special compensation. Otherwise the cost of solicitation will be paid by the Company.

REVOCABILITY OF PROXY.

A proxy may be revoked by instrument in writing executed by the shareholder or his attorney authorized in writing and deposited at Yorkshire Trust Company, 590 West Pender Street, Vancouver 2, British Columbia not later than 12:00 o'clock noon, of the day preceding the meeting at which the proxy is to be used, or any adjournment thereof, or with the Chairman of the meeting on the day of the meeting or by attending the meeting in person.

PROVISIONS RELATING TO VOTING.

The shares represented by a proxy in the form enclosed will be voted.

The enclosed Form of Proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters which may properly come before the meeting.

On the date of the accompanying Notice of Meeting the Company had outstanding 522,500 common shares, each carrying the right to one vote, so that the aggregate number of votes attached to all the outstanding shares is 522,500.

Shareholders registered prior to the meeting will be entitled to attend and vote thereat. Shareholders desiring to be represented by proxy at the meeting must deposit their Forms of Proxy at Yorkshire Trust Company, 590 West Pender Street, Vancouver, British Columbia before 4:00 o'clock in the afternoon (Vancouver Time) on Thursday August 26th, 1971.

To the knowledge of the directors and senior officers of the Company, the following are the only persons or companies holding more than 10% of the outstanding voting shares of the Company as at August 19, 1971:

Name	Number of Shares Owned	Percentage of Outstanding Shares.
Steintron International Electronics Limited	339,625	65.0%

ELECTION OF DIRECTORS.

The Board has consisted of five directors to be elected annually. The management of the Company proposes to reduce the number of directors to four and to nominate the persons listed below for election as directors of the Company to serve until the next annual general meeting. All such proposed nominees are now directors of the Company and have been since the date indicated. Forms of Proxy given pursuant to this solicitation by the management of the Company will be voted for election of such proposed nominees as directors. If any of the proposed nominees should for any reason be unable to serve as directors of the Company, the persons named in the enclosed Form of Proxy reserve the right to nominate and vote for another nominee in their discretion.

Set forth hereunder are the names of the four persons proposed to be nominees for election as directors, all positions and offices with the Company presently held by each of them, their respective principal occupations or employments, the period during which each has served as a director of the Company and the approximate number of shares of the Company and its subsidiaries beneficially owned directly or indirectly by each of them, as furnished by the director concerned as at August 19, 1971.

3.

<u>PROPOSED NOMINEE</u>	<u>PRINCIPAL OCCUPATION</u>	<u>DIRECTOR SINCE</u>	<u>SHARES OWNED</u>
KARL STEIN Director & President	President and Chief Executive Officer, Steintron International Electronics Limited	May 3, 1971	Nil
BEN N. TESSLER Managing Director.	Vice-President and Chief Financial Officer, Steintron International Electronics Limited	May 3, 1971	Nil
ROBT. L. McQUARRIE, C.A. Director, Secretary	Comptroller Steintron International Electronics Limited, Chartered Accountant	May 3, 1971	Nil
JACQUES BARBEAU Director	Barrister and Solicitor	May 3, 1971	25,000

REMUNERATION OF MANAGEMENT AND OTHERS.

The aggregate direct remuneration paid or payable by the Company and its subsidiaries whose financial statements are consolidated with those of the Company for the year ended February 28, 1971 to the directors and senior officers of the Company is \$58,350.00.

On September 30, 1970, the Company granted an option to purchase 10,000 shares in the capital stock of the Company at \$1.00 per share to a person who was then but is not now a senior officer of the Company. The option was exercisable at 2,500 shares per year to December 31, 1973. During the year ended February 28, 1971 the Company issued 2,500 shares pursuant to this option. The price range of the shares of the Company in the thirty day period preceding the date of the granting of the option was a low of \$0.86 and a high of \$1.00. This option replaced an option on similar terms granted in the previous year and exercisable at \$3.50 per share.

The directors of the Company propose to establish an option plan pursuant to the terms of which key employees of the Company as designated by the directors could be granted options to purchase up to a total of 5,000 shares in the capital stock of the Company at a price 20% below the closing bid price on the Company's shares on the Vancouver Stock Exchange at June 28, 1971. A total of 50,000 shares were set aside for the purpose of this option plan. The plan is subject to the approval of the Vancouver Stock Exchange, and no options under this plan have been granted.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS.

On July 29, 1971 Steintron International Electronics Ltd. of Vancouver, British Columbia purchased 65.0% of the previously issued and outstanding shares in the capital stock of the Company. The directors of the Company are also directors or senior officers of Steintron International Electronics Ltd.

APPOINTMENT OF AUDITORS.

Deloitte, Haskins & Sells have been the auditors of the Company since its incorporation. In the absence of instructions to the contrary, proxies given pursuant to this solicitation by the management of the Company will be voted for their re-appointment at a remuneration to be fixed by the directors.

OTHER MATTERS TO BE ACTED UPON.

It is not known that any matter other than those set out in the Notice of Meeting will come before the meeting, but if such should occur, the persons named in the accompanying form of proxy intend to vote on them in accordance with their best judgement exercising discretionary authority.

REPORT TO SHAREHOLDERS.

It is unfortunate that one of our first duties as your company's completely new board of directors is to report on the substantial loss incurred during the fiscal year ended February 28, 1971. Confident as we are that the total re-organization, now well underway, is providing a solid foundation for future growth, the past year's operation cannot go without comment. The impact on your company's potential must, however, be appreciated in the proper context.

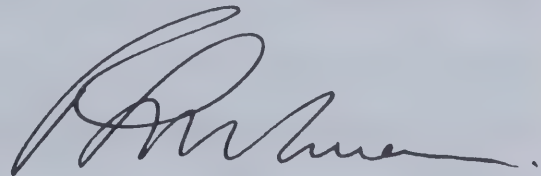
During fiscal 1971 your company had a net loss of \$930,510 after including extraordinary loss items amounting to \$313,572 on total sales of \$3,486,618 compared to a loss of \$37,981 on sales of \$3,790,760 during the previous year's operation. The net loss per share during the past year was \$1.86 (including extraordinary loss items of 65¢ per share) in contrast to fiscal 1970's loss of \$0.09 per share. The accompanying financial statement provides full comparative information for the 1971 and 1970 fiscal periods of your company. It must be pointed out here that two months after the close of the 1971 year, control of the company changed hands. Subsequently, on May 1, 1971, a completely new board of directors took office and began initiating measures to improve the operation. The two months between the close of the 1971 year and the appointment of the new directors will be reflected in the next annual report. However, we are certain new administrative and marketing procedures will have the desired satisfactory influence on present and future operations.

As your new board, we immediately took positive action to build a solid foundation for growth. Strong measures were introduced to cut operating expenses which had climbed significantly during fiscal 1971. To date six uneconomical retail outlets have been closed — four in Edmonton, one in Regina, and one in Victoria. Administrative changes have been implemented, and management responsibilities appropriately altered. An aggressive new sales and marketing program has been launched. In short, your directors have taken, and will continue to take, action to improve the company's operation and profit potential. Looking to the future, your board is confident there is room for cautious optimism.

The operational belt tightening, coupled with a new sales program, are proving to be generally effective.

In closing we take this opportunity to express our sincere appreciation to both creditors and shareholders for their constructive co-operation during a most difficult period of the company's development.

On Behalf of the Board

A handwritten signature in dark ink, appearing to read 'Robt. L. McQuarrie', with a stylized, flowing script.

Robt. L. McQuarrie, C.A.
Secretary

August 19, 1971
Vancouver, B.C.

DELOITTE, HASKINS & SELLS

Offices across Canada and associated firms throughout the world

Chartered Accountants

505 BARRARD STREET, VANCOUVER 1, B.C.

To the Shareholders of
Kelly-Deyong Sound Corporation Ltd.:

We have examined the consolidated balance sheet of Kelly-Deyong Sound Corporation Ltd. and its subsidiary companies as at February 28, 1971 and the consolidated statements of loss and deficit and of source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at February 28, 1971, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

A handwritten signature in cursive script that reads "Deloitte, Haskins & Sells".

July 30, 1971

Auditors

KELLY-DEYONG SOUND CORPORATION LTD.
AND SUBSIDIARY COMPANIES

(Under the Companies Act, British Columbia)

CONSOLIDATED BALANCE SHEET AS AT FEBRUARY 28, 1971

(with 1970 figures for comparison)

ASSETS		LIABILITIES AND SHAREHOLDERS' EQUITY	
	1971	1971	1970
CURRENT ASSETS:			
Cash	\$ 3,921	\$ 390,300	\$ 295,100
Accounts receivable - trade (less allowance for possible losses - \$161,800; 1970 - \$78,613)	218,642	719,236	624,091
Due from shareholder	4,405	-	39,172
Income taxes recoverable	-	10,911	1,734
Inventory - at lower of cost or net realizable value	805,351	-	6,346
Prepaid expenses	34,712	71,509	-
Total current assets	1,067,031	1,191,956	966,443
NON-CURRENT ASSETS:			
Instalment accounts receivable, less amounts due within one year included in current assets above	-	5,500	40,645
Long-term refundable deposits	751	-	48,433
Mortgage receivable less amounts due within one year included in current assets above	11,841	21,052	3,816
Total non-current assets	12,592	67,751	52,249
FIXED ASSETS - at cost (Note 2)	531,548	10,911	1,734
Less accumulated depreciation and amortization	141,287	56,840	50,515
Net fixed assets	390,261	-	16,400
DEFERRED INCOME TAXES (Note 11)	36,200	-	-
OTHER ASSETS - at cost (Note 3)	-	-	-
Incorporation and financing costs	-	-	-
Excess of cost of shares of subsidiaries over underlying net assets at dates of acquisition	-	-	-
Total other assets	-	-	-
SHAREHOLDERS' EQUITY:			
Share capital (Note 6):			
Authorized: 1,000,000 shares of no par value			
Issued and fully paid: 522,500; 1970 - 520,000 shares	390,261	1,220,279	1,217,779
Deficit	36,200	(968,491)	(37,981)
Net shareholders' equity	-	251,788	1,179,798
TOTAL	\$1,506,084	\$1,506,084	\$2,253,801

APPROVED BY THE BOARD:

Director

Director

TOTAL

The accompanying notes are an integral part of the financial statements

KELLY-DEYONG SOUND CORPORATION LTD.
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF LOSS AND DEFICIT

FOR THE YEAR ENDED FEBRUARY 28, 1971

(with 1970 figures for comparison)

	<u>1971</u>	<u>1970</u>
SALES	\$3,486,618	\$3,790,760
COST OF SALES	<u>2,674,277</u>	<u>2,662,220</u>
GROSS MARGIN	<u>812,341</u>	<u>1,128,540</u>
EXPENSES:		
Operating, selling and administrative expenses except those listed hereunder	1,397,849	1,157,876
Depreciation and amortization	59,154	31,753
Interest on long-term debt	19,669	4,196
Other interest	<u>31,421</u>	<u>41,709</u>
Total expenses	<u>1,508,093</u>	<u>1,235,534</u>
LOSS FROM OPERATIONS	695,752	106,994
OTHER INCOME	<u>43,649</u>	<u>29,366</u>
LOSS BEFORE RECOVERY OF (PROVISION FOR) INCOME TAXES	<u>652,103</u>	<u>77,628</u>
RECOVERY OF (PROVISION FOR) INCOME TAXES - (Note 11):		
Current	8,015	52,047
Deferred	<u>27,150</u>	<u>(12,400)</u>
Total recovery	<u>35,165</u>	<u>39,647</u>
LOSS BEFORE EXTRAORDINARY ITEMS (Note 12)	<u>616,938</u>	<u>37,981</u>
EXTRAORDINARY ITEMS:		
Loss on disposal of inventory (Note 10)	10,000	-
Loss on disposal of leasehold improvements (Note 10)	25,468	-
Fire loss (Note 9)	50,662	-
Other assets written off (Note 3)	<u>227,442</u>	<u>-</u>
	<u>313,572</u>	<u>-</u>
NET LOSS FOR THE YEAR (Note 12)	930,510	37,981
DEFICIT AT BEGINNING OF THE YEAR	<u>37,981</u>	<u>-</u>
DEFICIT AT END OF THE YEAR	<u>\$ 968,491</u>	<u>\$ 37,981</u>

The accompanying notes are an integral part of the financial statements

KELLY-DEYONG SOUND CORPORATION LTD.
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED FEBRUARY 28, 1971

(with 1970 figures for comparison)

	<u>1971</u>	<u>1970</u>
SOURCE OF FUNDS:		
Issue of share capital for cash	\$ 2,500	\$ 884,000
Net current assets of acquired subsidiaries at dates of acquisition	-	339,989
Proceeds on sale of fixed assets	21,671	293,933
Decrease in long-term refundable deposits	3,386	-
Increase in deferred revenue	-	29,645
Increase in long-term debt - net of repayments ..	6,325	2,081
Decrease in instalment accounts receivable	<u>43,973</u>	<u>-</u>
Total source of funds	<u>77,855</u>	<u>1,549,648</u>
APPLICATION OF FUNDS:		
Operations:		
Net loss for the year	930,510	37,981
Add: Deferred income taxes (Notes 10 & 11)	52,600	-
Gain on sale of fixed assets - net, exclusive of loss on sale of other assets	<u>-</u>	<u>12,596</u>
	<u>983,110</u>	<u>50,577</u>
Deduct: Items charged to net loss which did not represent a current outflow of funds:		
Depreciation	59,154	31,753
Deferred income taxes	-	12,400
Loss on disposal of fixed assets:		
Included in fire loss (Note 9) ..	4,310	-
Disposal of leasehold improvements (Note 10)	50,918	-
Other assets written off (Note 3) ..	<u>227,442</u>	<u>-</u>
	<u>341,824</u>	<u>44,153</u>
Total funds applied to operations .	641,286	6,424
Purchase of all of the outstanding shares of certain subsidiary companies for cash	-	305,432
Purchase of fixed assets	149,254	507,303
Increase in instalment accounts receivable	-	43,973
Mortgage receivable	11,841	-
Financing costs	-	46,655
Incorporation costs	-	980
Long-term refundable deposits	-	4,137
Decrease in deferred revenue	<u>35,145</u>	<u>-</u>
Total application of funds	<u>837,526</u>	<u>914,904</u>
DECREASE (INCREASE) IN WORKING CAPITAL FOR THE YEAR	759,671	(634,744)
WORKING CAPITAL AT BEGINNING OF THE YEAR	<u>634,746</u>	<u>2</u>
WORKING CAPITAL DEFICIENCY (WORKING CAPITAL) AT END OF THE YEAR	<u>\$124,925</u>	<u>\$ (634,746)</u>

The accompanying notes are an integral part of the financial statements

KELLY-DEYONG SOUND CORPORATION LTD.
AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FEBRUARY 28, 1971

1. PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of Kelly-Deyong Sound Corporation Ltd. and all subsidiary companies. All intercompany items and transactions between consolidated companies, including profits in inventories, have been eliminated.

During the year ended February 28, 1970 the company acquired all of the outstanding shares of the following companies on the dates indicated below:

Kellys on Seymour Ltd.	March 1, 1969
Pro-Sound Distributors Limited (formerly B.C. Record Service Ltd.)	March 1, 1969
International Discount Records Ltd.	March 1, 1969
Deyong Sound Ltd.	March 1, 1969
Claude Crocker's Music Centre Limited	May 1, 1969
Trio Merchandisers Ltd.	August 29, 1969

2. FIXED ASSETS:

The major categories of fixed assets and related depreciation and amortization at February 28, 1971 are as follows:

	<u>Fixed Assets</u>	<u>Accumulated Depreciation and Amortization</u>	<u>Rates</u>
Buildings	\$ 96,434	\$ 9,010	5%
Furniture and fixtures	188,047	56,591	10-20%
Automotive and other equipment	55,360	15,694	20%
Leasehold improvements	<u>168,707</u>	<u>59,992</u>	Term of lease
	508,548	141,287	
Land	<u>23,000</u>	<u>-</u>	
	<u>\$531,548</u>	<u>\$141,287</u>	

It is the company's practice to provide for depreciation on a straight-line basis at the rates shown above, and to provide for amortization of leasehold improvements on a straight-line basis over the terms of the respective leases.

3. OTHER ASSETS:

Other assets represented by incorporation and financing costs of \$49,289 and excess of cost of shares in subsidiaries over underlying net assets at dates of acquisition of \$178,153 have been written off during the year as extraordinary items.

KELLY-DEYONG SOUND CORPORATION LTD.
AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FEBRUARY 28, 1971

This treatment has been adopted during the year as management does not consider that these amounts will have an effect on the future generation of income.

4. BANK INDEBTEDNESS:

The bank indebtedness is secured by an assignment of trade accounts receivable, by the loss proceeds of certain fire insurance policies, and by a floating charge debenture totalling \$500,000 on the assets of certain of the companies.

Under the terms of the debenture agreement the company is required to obtain the consent of the bank in order to declare or pay dividends in excess of \$15,000 on the share capital of the company.

5. LONG-TERM DEBT:

The mortgage, dated February 4, 1969, is payable in monthly instalments of \$524, to include interest and principal, with the balance due March 1, 1974. The mortgage is secured by the land and building. The principal portion of the instalments due within one year has been included in current liabilities.

The conditional sales agreements are payable in monthly instalments, aggregating \$749, to retire the respective balances during 1973 to 1976. The agreements are secured by certain equipment.

6. SHARE CAPITAL:

During the year the directors authorized a share option of 10,000 shares of the share capital of the company at \$1.00 per share to a senior officer of the company. This option is exercisable at 2,500 shares per year to December 31, 1973. During the year the company issued 2,500 shares pursuant to this option for a cash consideration of \$2,500.

A similar option authorized in the previous year at \$3.50 per share was cancelled during the year.

7. LEASES:

The company has entered into lease contracts on certain properties for varying periods of up to fifteen years including certain renewal options.

The rental expense incurred under these leases aggregated \$159,301 for the year ended February 28, 1971; 1970 - \$95,711. The annual minimum rentals for future years approximate \$124,300 after deducting certain leases terminated by the company subsequent to February 28, 1971.

KELLY-DEYONG SOUND CORPORATION LTD.
AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FEBRUARY 28, 1971

8. CONTINGENT LIABILITY:

As at February 28, 1971, a subsidiary company was contingently liable to the extent of approximately \$16,500 (1970 - \$51,500) for recourse, under certain circumstances, on the sale of conditional sales contracts and lease purchase agreements.

9. FIRE LOSS:

A subsidiary company experienced extensive fire damage during the year. All expenses relating to the fire and the cost of destroyed and damaged inventories have been charged to the fire loss, offset by the proceeds of insurance coverage received to date.

10. SUBSEQUENT EVENTS:

Subsequent to February 28, 1971, the parent company and one of its subsidiary companies have discontinued operations in four retail outlets in Edmonton and one retail outlet in Regina through sale of fixed assets and inventories and assignment of the related leases. The company has also discontinued operations in one retail outlet in Victoria.

The consolidated financial statements give effect to the above transactions as though they had occurred prior to the year end. The disposal of applicable fixed assets and inventories has resulted in losses of \$25,468 net of deferred income taxes of \$25,450 and \$10,000 respectively, which have been disclosed as extraordinary losses in the Statement of Loss and Deficit.

Subsequent to the year end the company granted an option to sell the land and buildings at a price of \$140,000. This option had not been exercised as at July 30, 1971.

11. INCOME TAXES:

The company and its subsidiary companies had at February 28, 1971 losses available for application to future years taxable income aggregating approximately \$722,000. The potential reduction in future income taxes attributable to this loss has not been reflected in the accounts.

The undepreciated capital cost of fixed assets exceeds the related net book value at February 28, 1971 by approximately \$72,000. The potential reduction in future income taxes which will result from claiming capital cost allowance for tax purposes in excess of depreciation charged in the accounts has been reflected in the accounts as Deferred Income Taxes.

